Procurement Policies in the Export Sheepmeat Industry

Past, Present and Future

A Vision for the future

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Introduction

My motivation in writing this report was that I am concerned about where the New Zealand export sheepmeat industry is going, given that I am a sheepfarmer myself.

There must be some way to put the sheep industry on a much sounder footing for the future, a future where all involved in the industry would prosper.

I have looked at the past ,and the present procurement polices before coming up with my vision for the future, which will require major changes by all involved.

I do hope that this report will stimulate some further debate in the export sheepmeat industry at all levels.

I do not believe in a "them and us" attitude when farmers talk about their freezing companies for it is only by us working together that the present problems in the industry can be solved and a future for all assured.

Method - Past

My research on the past procurement polices has been based on reading the published histories of Southland Meat companies; The Southland Frozen Meat, and The Alliance Group Ltd.

My other reading has been a resource book for economics students and teachers on The NZ Meat Industry, Meat Producers Board Profile of the NZ Export Industry, freezing companies newsletters and annual reports. Library searches were conducted at both Winton and Invercargill using bibliographic and INNZ data bases. Three reports from the bibliographic search were obtained and read.

I have approached many farming leaders in Southland. I also have contact with many other farmers as I am involved in discussions regularly at Federated Farmers Meat and Wool Section meetings about the Meat industry and have the opportunity to talk to the members who attend.

Method- Present

The main thrust of my research on present procurement polices has been by writing to all the companies which process export sheep meat in NZ

A draft copy of the letter was read by many and any changes made. There weren't any specific questions asked in the letter as such, instead I set out various areas that I hoped they could comment on. The reason this was done was I hoped more information might be obtained by not narrowing to particular questioning. (see copy in appendix 1)

The NZ Meat Producer had an excellent edition on the NZ Meat Industry and most of the company addresses and phone numbers were obtained this way however gaps were filled in with a ring to the NZ Meat Board.

The letters were sent out on the 23rd of May to all 17 companies which procure and process export sheepmeat .On June 1 several companies were rung to see if they had any queries they wanted to talk to me about. Several companies gave their replies then and there on the telephone ,and with others I had to leave messages with secretaries for some Chief Executives . All companies had been contacted by June 8th.

After talking to Canterbury Meat Packers on the telephone I drove to Ashburton and attended a supplier open day on June 24.

On September 7th a second letter was sent to the companies which I hadn't had replies from the main thrust of the letter was to get a few brief comments and assure them I didn't want a book!!! (see copy in appendix 2)

Method-Future

Looking at the past ,and the present was my main method of getting a vision of the future. All the sections of this report are intertwined ; for by not understanding what happened in the past how can we appreciate where we are at ? By not understanding where we are at present how can we understand where we are going ?

Over the last few months there has been much discussion over the future of the sheepmeat industry . I have read many articles in magazines , particularly the NZ Farmer.

On July 14 Southland Federated Farmers Meat and Wool Section held a workshop on the meat industry where the issues were divided into 3 sections : Farm, Processing , and Marketing. At night I attended a presentation by Alan Jackson of the Boston Consulting Group, who are consultants on performance. Alan was involved in work for the Dairy Board including their vision .

In Central Southland I also was part of a Federated Farmers initiative that held 5 meetings where farmers were invited to come along and hear a farmer panel's point of view on A Profitable Sheep Meat Industry ? The format was informal ,as most of the meetings were held in woolsheds. As a panel member I presented a survey of accounts by a local farm consultant and presented my vision of the future.

On October 4th I wrote to the Commerce Commission to get some points clarified as to where it fits into the procurement picture and how it would view a new procurement system .(see copy in appendix3)

The Past - Discussion

The Beginning

The New Zealand Export Sheep Meat Industry was born on the 11th of February 1882 when the first shipment of sheepmeat left Port Chalmers bound for London.

It had been made possible because of a revolutionary process called refrigeration

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The sheep industry had expanded to a stage that in 1880 the NZ sheep population was 11,530,623 , well beyond NZ possible consumption. Surplus sheep were generally boiled down, the returns coming from tallow, wool and pelts. Grain, because of its fluctuating prices, provided an unreliable backstop, farmers had battled tough times since 1865.("The Keys to Prosperity" by Clive A Lind, Craigs 1981)The freezing of meat was the link to supplying Britain , a country with food shortages!!

1883-1915

Procurement polices in those early years centred around preparing meat for shipment on the owners account, and arranging the shipping but the owner (farmer) had to arrange selling in Britain. This could be easily done through a mercantile firm.

Shareholding was indeed important in those early years. In Southland, for instance, in 1883 there was no problem finding sheep indeed some potential suppliers had to be turned down because they weren't shareholders. There were also minimum and maximum weights and sheep would be refused that didn't meet the standard.

In 1884 a conference of delegates from NZ meat companies banded together on shipping rates and set maximum rates and specifications .(Ibid) The tough line worked .

By having a collective strength returns and the quality of the shipping service had been greatly enhanced.

Procurement wars occurred for various reasons in Southland in the 1890's .

A price war between the large British company Nelson Bros (Ocean Beach) and The Southland Frozen Meat Company (Makarewa and Mataura) developed because of a Samson and Goliath attitude of Nelson Bros who knew how easily SFM could be run out of the field.

However in 1896 Nelson Bros agreed that they would no longer go to uneconomic lengths to outbid each other for stock. It had cost Nelson Bros £102,000 and driven SFM to the brink of liquidation!!(Ibid)

Canterbury companies were also making regular forays into Southland and taking back vast numbers of sheep and lambs for slaughter. English consumers paid more for CANTERBURY brand over NZ meat because of confusion with Canterbury in the United Kingdom.They could therefore pay more (Ibid)

There is little evidence of any quality standards in those early years apart from the weight criteria forementioned and this was probably relaxed with the procurement wars.

Indeed in 1907 farmers did not clean or dag their sheep, nor were they small animals. Farmers held their lambs as long as they could so they gained as much weight as possible. (Ibid)

For 30 years after 1880, NZ farmers produced mutton and lamb in ever-increasing quantities for the British market. (The NZ Meat Industry by Kathie Willis 1992)This, combined with a lack of freezer storage would help explain, why as part of procurement, companies required months ahead guarantees of stock that would be supplied.

For instance in 1885 there were no shipments of meat from Southland because SFM was unable to secure any vessel either steamer or sailing. So great is the demand at other ports that no space is available for Bluff.(Lind 1981)

1915-1945

Procurement polices during World Wars 1 and 2 were very simple in both 1915 and 1940 our entire production was requisitioned and was sold at preset prices .Every one had to do their bit and we were told to lift our production too.

Indeed during World War 1 farmers were advised to go in for more winter feed to enable carrying over alive any surplus stock which even with the extended storage, space might not be able to accommodate. (Ibid)

During both wars storage space was greatly increased because of the lack of ships avaliable. The meat industry was little more than a Department of State during the wars as there was only one procurement policy for the entire country, but everyone agreed for the sake of NZ and the British Empire.

In 1920 New Zealand had a full years export meat production in storage. Naturally, when the surplus got to the market at Smithfield in London, prices tumbled. Added to these problems were the escalating costs of shipping meat to market .(Willis 1992) A government appointed committee investigated the large drop and found that it resulted largely from the uneven pattern of NZ meat arriving on the market, which helped to increase costs.

But the main cause was the high cost in handling a wide range of grades, and so many parcels of meat, all of which had different shipping marks .

It was recommended that the government introduce legislation to put the whole of the NZ meat industry under the control of a board. While the controversy raged several freezing companies had lowered their charges and there was also a noticeable improvement in prices offered for NZ meat. Prime Minister William Massey was shrewd enough to know that it was hardly coincidental Massey said in a speech before the war farmers were receiving 80% of the British market price, in 1922 they received 46% ! (Ibid Lind 1981)

A bill was introduced into the house and the NZ Meat Producers Board was born. It could assume control over all export meat, prohibit or limit exports, impose a levy, negotiate all shipping contracts, lay down conditions on grading, handling, storage and insurance , arrange promotion or make any arrangements it considered necessary for the sale or disposal of NZ meat. The Meat Board's power allowed it to deal with the problems within the industry and to act in the economic interest of NZ, and specifically of the farmers producing the stock.

In December 1924 Southland Frozen Meat tried to halt the flow of stock north by having circulars, prizes at shows and cash prizes for the best lines killed, and advances to farmers at favourable interest rates. It was a positive procurement scheme but still stock continued to go north for higher prices.(Ibid)

In 1930 voluntary stock quotas were agreed upon for the lower South Island by Ocean Beach, SFM and NZ Refrigerating Companies. Competition, the companies decided, was necessary, but cut throat competition did nobody any good. Quotas of exportable sheep and lambs were set at NZR 335,000 animals , Ocean Beach 182,000 ,and SFM 364,000. The South Otago company also entered into an agreement on stock quotas later. For once southern freezing works were working together in competitive harmony.(Ibid)

1945-1980

The bulk purchase agreement with Britain during World War 2 was good for NZ producers who, in addition to an assured market until 1955, were promised 2 years advance warning of the expiry of the contract.(Willis 1992)

Under the Meat Export Control Amendment Act (1958) if the Meat Board felt the price was too low, it could buy supplies and try to market itself. It was keen to do this for markets outside the UK in 1960 and to prevent that, NZ owned freezing companies with the concurrence of the Board itself, agreed to set up the Meat Export Development Company (Devco). (Lind 1981) The Meat Board set the policy and the companies had to deal with the difficult trading problems in developing mainly the North American market and by 1967 accumulated losses were £3.8 million !!

Britain remained a large importer of NZ sheepmeat about 87% in 1970, when it announced the end of the guaranteed price NZ farmers enjoyed. This change occurred in order for Britain to join the European Economic Community.(Willis 1992)

By 1980 sheepmeat exports to Britain had fallen from 313,000 tonnes to 181,000 tonnes representing a drop of over 40%.

New markets were already developing particularly in Iran, other EEC countries, Saudi Arabia, with increased tonnages to Canada and Japan, and a constant but stagnant US market.

Hygiene regulations in 1960 were non existent ! In fact when the Alliance Freezing Company was talking to the Department of Agriculture officers , there were no regulations or manual of procedures.(A Cut Above by Clive A Lind, Craigs 1985) By the early 1960's the first of the hygiene regulations were making their presence felt , by 1967 They affected even the workforce's clothing. Instead of wearing jeans and black singlets with a weekly change , everything had to be white and changed daily. Detain rails where rejected meat is trimmed were installed and meat inspectors increased from 1 a chain to several .In the early 1970's, the regulations grew even tougher. Perfectly good buildings were suddenly declared not up to standard when the Department of Agriculture decreed wood panelling had to be replaced.

Much cost was added to the killing fees because of the ever increasing regulations and in 1980 the Freezing Companies Association Executive Director Peter Bloomfield said hygiene Regulations would have cost $382 million in capital improvements by 1982 plus $268 million on other development expenditure in the same period.(Lind 1981)

The hygiene regulations had affected farmers mainly through increased killing charges. There was however a major swing away from overfat lambs in 1963.Overfat lambs were simply not wanted as there was a world trend to leaner meat.(Ibid) This saw a swing away from the Southdown breed. In 1966 sheep washing facilities were installed at the Alliance plant in Southland to overcome the problem of dirty stock .(Lind 1985) Stock presentation for dagginess was also tightened .

Industrial relations were one of the major indirect influences on how procurement polices operated and indeed the whole industries profitability.

In 1970 a independent arbitrator settled the award for the freezing industry with what amounted to a 38.6% increase in wages in less than a year, when a general wage order and go slow settlement were taken into account.

The following quotes are all about the Alliance freezing company from Lind 1981 and clearly illustrate how difficult running a meat company was throughout the 70's and into the 80's.

- 1973-74 season a strike lasting 12 1/2 days. The Chief Executive said "It has become apparent that there are a few individuals intent on maintaining a pattern of disruption to suit their own ends with the union structure"
- March 1975 Due to poor attendance of workers by late January, the works had not achieved a full tally in any one day. The new Accident Compensation Act which

entitled personnel to full pay for the first week of time off due to injury accentuated attendance problems

- October 1975 Otago and Southland slaughterman said they would refuse to work untill they received $40 a day without any increased productivity
- March 25th 1977 Alliance had to stop the kill because absenteeism had reached such a high rate that the company could only operate 1 of its 6 chains.
- Also in 1977 the Chief Executive reported to the Alliance Board "The general pattern of the industry at the present time is one of unrest and stoppages and very few works in the country have not had industrial problems over the last fortnight".

In February 1978 throughout NZ slaughtermen's pay rates were increasing in direct contravention of the wage regulations. The national award was still not settled and employees at one works would leap-frog over their colleagues at another for individual wage settlements. In March national freezing industry award talks had still not been settled. To reinforce their claims, workers throughout NZ began what amounted to a lottery of rolling strikes(Ibid)These strikes were contrary to the Act , and stock were left in the yards. Because no assurances were given that such tactics would cease, companies began to issue suspension notices from 11 March and told the union no stock would be put up from 13 March.(Lind 1985)

Prime Minister Muldoon stepped in with an enforced settlement with $3 million concession each from the companies ,the union , and the government (subsidy).But if the Prime Minister expected peace to fall on the industry he would have been sorely disappointed. Industrial unrest did not lessen, and the Government's intervention tended to give individual sheds more muscle. (Lind 1981) The SFM chairman's comment on the 77-78 year was "It was extremely disappointing that the Government's handout to the union had achieved industrial chaos , instead of peace" .

"The season has been the worst in the company's history with wages, absenteeism and the activities of the Ministry of Agriculture and Fisheries and associated hygiene requirements being the main problems". (Ibid)

In Southland farmers had had enough. Old ewes that were booked in to be killed in November were still on farms in June. On numerous occasions their stock had actually left for the works, only to be returned because of a dispute. On Friday 9 June 1978 250 farmers and supporters drove into Invercargill and let over 1,000 ewes out in the city centre . The farmer's protest had national press and television coverage.

In 1980 the union still had bans in place on the introduction of new technology. The Freezing Companies Association's Executive Director said "With labour costs increasing and productivity declining , the industries immediate objectives were to hold , if not reduce, costs of processing and to introduce new technology and automation.(Ibid)He could see that the cost plus mode, debiting the farmer with the huge and increasing bill for processing costs, couldn't continue. It is interesting to note also that on farm costs between 1977 and 1981 had risen in total 126% or an average of over 25% per year!!!! (Ibid)

During unofficial talks between SFM and the Meat Board on 19 June 1967 the SFM Chairman said " In his opinion , the time was overdue for a more rational approach to the responsibility of fixing a schedule because of the enormous risks faced each year. On the one hand, companies were terrified of losses, but on the other they were just as embarrassed if they made large profits" . All companies had taken a hiding on their profits , and the general feeling was that the schedule should be more closely related to the world markets . Gilkison (Chairman SFM) , in the course of his travels throughout NZ, held numerous meetings with other freezing company representatives, and found they agreed. But when it came to detail ,they could not find sufficient ground.(Lind 1981)

Canterbury Frozen Meat arranged a meeting to consider their solution which was basically an amalgamation of all South Island companies. A feasibility study was done but companies didn't all agree so it didn't proceed.

The Meat Board was talking to all South Island companies too about the need to try and rationalise marketing and get rid of weak sellers. (Ibid)

1980-1995

In 1980 the meat industry was delicensed. This removed the need for companies to prove that the building of their new plant would not jeopardise the livelihood of other operators. This permitted new operators to build processing plants, that used new processing technology which were generally smaller .It is interesting to note that of the 17 companies I wrote to, 13 were established after 1980.The 4 large companies of the pre 1980 era processed over 70% of the sheepmeat in 1994-5.

The international market place was seriously disrupted in the early 1980's when, because of the Iran -Iraq war, sales of lamb fell dramatically in the Middle East. Prices were expected to fall well below those set by government via the supplementary minimum price scheme introduced in 1978. The Meat Board took over and controlled the sheep and lamb marketing for 3 years (1982- 1985), which created real difficulties both for the meat companies and the Board. Direct Board control ended in December 1985 when the worst of the production market crisis was over. SMP's (Supplementry minimum prices)were removed in July 1984 and all other government assistance was phased out by 1989.The sheepmeat kill, and flock peaked at that time and has continually dropped ever since. In 1984 the national sheep flock was nearly 70 million in 1994 it was just under 50 million.

Industrial relations were still not good in the early 80's. For instance in the 1983-84 season at Alliance Lornville works in Southland workers had lost over $2,700 each through stoppages of their own choice. Many farmers were sick of the unrest that had plagued the industry and had shares in or supplied more than one company.

The cost of not being able to get stock away could affect more than one years income by lowering lambing percentages. The turning point for industrial relations was probably in 1991 when the straitjacket of rigid industrial legislation was removed and the Employment Contracts Act was introduced allowing companies to create, with their employees, more productive work patterns and relationships. It also removed union monopolies.

With the reducing supply of available sheepmeat for slaughter, companies such as Waitaki began to fall over and be sold and carved up. Closures accelerated several small plants got into trouble and were sold .With the Employment contracts act these plants were bought at lower prices and new pay and conditions imposed on the rehired work force.The daily killing capacity of the Sheep meat industry declined 26% from 1982 to 1991 and procurement was still intense despite that massive reduction. Procurement wars continued on into 1993 in the South Island particularly and many farmers were selling stock on a per head Dutch action system.

Procurement polices were totally driven by throughput and messages that overfat lambs weren't desirable were forgotten when they could be sold for the same or greater return at the gate than your best grading lambs. Those farmers who were loyal and killed on schedule often received less than the blatant per header with absolutely no commitment.

It came to a head in 1994 with the collapse of Weddel, Fortex and Waitane meat companies entering into bankruptcy. Although being nervous about what was happening previously the banking fraternity, I believe, put all companies on a very short chain from then on. Many predicted there were more to go . Procurement wars had been fought with extra borrowings and were not related to the market price. The banks and even the Government were surprised at how Fortex had fallen over . It had been an industry leader

In October 1994 the Government announced its attention to introduce a new system of quota allocation for companies to sell into quota markets . After much discussion between Federated Farmers , the Meat Board , and the Meat Industry Association a counter-proposal was backed by Government . It will eventually operate on a 3 year rolling average and a small amount will be set aside for new entrants .The new system will slow new entrants and give companies another asset ,their quota allocation. This helped quell the banks who I believe at the time called the industry unbankable.

Since then there has been a buyout of Weddel's 6 plants by a consortium representing 85% of the North Island companies. They are to remain closed, representing a reduction of 27% of the North Island sheepmeat capacity . In the South Island only the Fortex plant at Mosgiel remains closed after being bought by PPCS, representing approximately 7 1/2% of the South Island capacity.

National capacity has changed greatly, in fact from 1982 to 1995 the number of sheepmeat plants reduced from 42 to 32 and the daily capacity has reduced from 370,000 to 210,000 over the same time. This represents a 43% increase in plant utilisation relative to 1982. (source Meat and Wool Economic Service , September 1995)

Many of the meat plants are now ISO 9002 accredited, which is an internationally accepted quality standard which deals with meeting the customer's requirements. Strict procedures for all processes are fully documented and adhered to, so the product the customers receive is what they specified, on the required date. Companies have operation manuals for each process which are updated .The push in the NZ Meat industry is for a quality product .

The Present -Discussion

I wrote to all companies that export sheepmeat in NZ. I have received excellent written replies from some and had excellent telephone replies from others. I have talked in person to some also, with good discussion taking place.

The companies that I received feedback from and which I have based this section of my paper are:

North Island	Established
Progressive Meats Ltd	1981
Richmond Ltd	1930 *
Frasertown Meat Co Ltd	1987
Waitotara Meat Co LTD	1988
Affco NZ Ltd	1904 *
South Island	
Blue Sky Meats NZ Ltd	1987
Canterbury Meat Packers Ltd	1994
Nelson Bays Meat Producers Ltd	1992
Alliance Group Ltd	1948 *

* Denotes large Meat Company with many multi chain works

The 9 companies which took part are a mix of old established multi-chain, multi-plant companies (Affco , Alliance and Richmond) and the new single chained plants which emerged after delicensing in 1980.

I estimate that the companies that took part represent over 60% of the NZ kill. I have dealt with the information in the same way that it was set out in my original letter.

Use of contracts

PROGRESSIVE MEATS contracts are for 12 months in advance. They specify both a weight range and a GR (fat cover) range .They also agree the period for delivery and numbers. There is some flexibility with at least 3 weeks prior notice and mutual agreement on any changes.

RICHMOND uses contracts for specific markets in the chilled trade, for lambs only in the Christmas pre Easter trade, they specify grades and numbers.

WAITOTARA has used contracts in the past with specific grades and numbers but they haven't been as successful as they would have liked .

AFFCO do use contracts for the UK chilled early market .They do have suppliers who can meet the tight specifications who are targeted for the trade.

Affco also has a lambplan contract which covers supply during the whole year and has an optional advance set at 50% of the price, currently $15 per lamb with a interest rate of 8% up until slaughter. The agreement for the contract has teeth only for the advance and a legal penalty fee of 20% on default of supply on specified dates. An intention of supply gives an idea of anticipated supply . A commitment fee of 65cents a lamb is paid to repeat lambplan suppliers at slaughter on qualifying lambs. These are YL,YM,YX,PL,PM,PX,and PH grades only .

BLUE SKY MEATS have always used contracts which are signed at the outset of the season and include dates and numbers which are strictly adhered to by the company. Flexibility is available to the producer with 14 days notice and subject to the company being able to move numbers and dates. Preferential suppliers are initially shareholders but basically those that are prepared to sign contracts by a certain date - usually early December.

CANTERBURY MEAT PACKERS have winter contracts for the chilled lamb trade . They have specific numbers in weeks and payment is on a per kg basis with weekly incrementing and a required weight range of 16 to 21.2 kg with a maximum GR of 12.Drafter's workmanship is guaranteed up to a maximum of 5% grading T . Farmers are therefore paid as if they weren't down graded to the T .

NELSON BAYS only has a limited winter contract and does have a preferred supplier scheme much the same as the Alliance.

The ALLIANCE GROUP does have an intention to supply which sets out numbers and weeks when they will be supplied . That space is fixed to the numbers specified for each supplier and drafters won't have the same discretion as in the past. A commitment fee is paid on the fulfilment of the last year's intention to supply (total number) and on signing another intention to supply at the rate of $1 a head of the total supplied. Guaranteed drafting for T grades is also paid to committed suppliers.

Total Quality Management and Quality Issues

PROGRESSIVE MEATS have been accredited to the ISO 9002 (an internationally accepted quality standard) for our quality systems since 1992.They provide presentation information to suppliers and are working in conjunction with a local farming group towards eventual accreditation of suppliers. All important quality issues that can be practically measured, as perceived by their customers are provided as quality information feedback to their suppliers on the killing sheet. A good example of this is pelt identification where the farmer gets feedback and is paid on their pelt quality , nearly all other companies just pay an average price.

RICHMOND was accredited to the ISO 9002 for their quality systems at all their works in February 1994.They send out to farmers a comprehensive health report on all lambs and this specifies up to 20 diseases even aesthetic ones. An explanatory booklet was put together to help cross reference information contained in the reports.

Richmond also provides on request reports covering the suppliers district averages. Presentation is graded on a A,B,C scale. They believe Farmers will be involved in the ISO accreditation. process in the future.

FRASERTOWN employ the recommended hazard analysis programmes in conjunction with strict MAF regimes and are endeavouring to implement supplier warranties on withholding periods

WAITOTARA does have a comprehensive health status report that goes to suppliers. At the moment they are introducing an on farm quality system.

AFFCO is currently working towards ISO 9002 accreditation. It has a monthly newsletter and an 0800 freephone and skilled personnel who help with information transfer. It does have a comprehensive checklist for stock presentation and provides suppliers with a presentation report.

BLUE SKY MEATS have ISO 9000 accredited for some time and believe it may lead to producer involvement because of animal welfare. They see producer involvement mainly for hygiene reasons.

Penalties must be considered for bad presentation ideally every animal after April 1 should be shorn. They have had pelt identification for 3 years and believe it is hard to get very good records, though in Southland problems are not great.

CANTERBURY MEAT PACKERS is focusing on the chilled trade and has strict criteria on presentation because if presentation not right, e.g. emptied out, it can't send the meat sea freight it must go air freight is approximately 10 times the cost!! They use yield grading and pay on a per kg basis. They provide feedback to assist farm management. In the future they want to work towards a strong core base of accredited suppliers and have farmer liaison groups.

ALLIANCE GROUP has all its plants ISO 9002 accredited and provides farmers with reports on presentation standard it also has regular newsletters and supplier groups.

Per Head buying

PROGRESSIVE MEATS doesn't engage in per head buying for the simple reason that there are winners and losers on the price paid but nobody gets a market signal or any information on how good their product was and subsequently the areas that could be improved.

RICHMOND does not pay per head for lambs but still does for ewes and pays more than schedule as a procurement tool for lambs.In 1991 they gave away paying headages to third party agents, that is people outside their own drafting force, as they believe it only adds cost to procurement. They want a closer relationship with farmers.

FRASERTOWN is a small specialist boneless mutton plant that uses a procurement agent and they negotiate directly with the farmer on a price per head at the farm gate.

WAITOTARA doesn't buy per head for their lamb crop but in the North Island ewe buying is mainly on a per head basis and price is underpinned by the local trade .

AFFCO buy a large percentage of their ewes on a per head basis.

BLUE SKY MEATS believes a sensible industry must avoid it and that ewes should be treated no differently to lambs in this regard .

CANTERBURY MEAT PACKERS is looking at establishing loyalty with trusting relationships in saying that per heading is not part of their future plans .

NELSON BAYS don't believe in per heading; ewes should be treated the same as lambs.

ALLIANCE GROUP now don't pay headages to third party drafters as it adds cost and doesn't help build closer relationships between the company and their suppliers. They don't actively promote the per heading of stock; in fact it is an option but per headers rank very low priority when looking for killing space priority when no per heading occurs during the bulk of the season.

PAYMENT

PROGRESSIVE pays the standard 14 days following slaughter date. It does have a romalpa clause which would allow animals (killed) on any given day to be identified to the supplier, and as such would be the basis of a claim in the event of a receivership, but without guarantee .

RICHMOND pays the standard 14 days following slaughter and pays all transport, which is the North Island normal practice. WAITOTARA and AFFCO do likewise.

FRASERTOWN has the farmer paid promptly by their procurement agent.

BLUE SKY MEATS has the standard 14 day payment but is changing their transport policy from the South Island standard of the farmer paying to the nearest works, to the farmer paying to their works. There have been some ridiculous anomalies because of Blue Sky only has 1 plant, meaning a supplier 8km from their plant would pay the same as a supplier 40km away from their plant but only 8km from a competitor's plant .

CANTERBURY MEAT PACKERS are the only company to offer security of payment . This is by way of nominee company which has assets that would always cover the 14 day payment cycle and gives farmers first call on assets .It is strictly monitored by the Commerce Commission .They are looking at accrediting transport firms to do away with undesirable practices such as broken and dirty crates.

NELSON BAYS and ALLIANCE both pay the standard 14 days after slaughter and have the South Island transport regime of the farmer paying to the nearest works .

Pools

PROGRESSIVE MEATS don't have a pool at the moment but are keen to establish a pool option. This would allow the farmer to take a market risk and get a subsequent profit or loss .

RICHMOND do have pools for lamb only and these are not widely supported. In 14 days 90% of schedule price is paid and when returns are finalised a profit or loss above full schedule.

AFFCO does have pools in their lambplan which is a 1990's version of the old owner's account system . They don't have pools for ewes. There is no need to have shares in the company to participate in the pools but you must commit to the lambplan supply agreement. You are paid 100% 14 days after slaughter with an extra payment being made on a cents per kg basis according to the grade, 8 weeks after the end of the monthly pool and only on qualifying stock. Qualifing stock are the stock the company targets being basically all Y and P grades.

BLUE SKY MEATS doesn't have pools and believes the ability to sell on owner's account is impossible on a further processed system.

CANTERBURY MEAT PACKERS have 3 pools with 90% being paid out at the time of payment (14 days) and any bonuses paid out on a light / medium /heavy cents per kg basis. Pool results are announced and paid out 2 months after pool closure.

ALLIANCE do have pools and you have to be a shareholder to participate. Although 90% is paid out in 14 days you are guaranteed of at least getting 100% of the schedule price . A new option is a saver's pool which has an extra 30% retained and interest paid on the extra 30% retention untill retention is repaid .Above schedule results are announced and paid twice a year, normally .

Financing

PROGRESSIVE MEATS is a privately owned processor . Much more important than ownership is the understanding that we are interdependent on each other and need to co-operate so we can obtain the maximum **net** revenue from the market place and the recognition that all participants must have a margin .

RICHMOND is a publicly unlisted company with a substantial farmer shareholding (golden share) There is no relationship between a individual's shareholding and the procurement side of the business. Profits are paid out by way of dividends on shareholding.

WAITOTARA is a publicly unlisted company where procurement issues are divorced from the shareholding held.

AFFCO is a publicly listed company with substantial farmer shareholding. There is no need for shareholders to have shares.

BLUE SKY MEATS is a publicly unlisted company with some farming shareholding. You don't have to be a shareholder to supply but shareholders get all the contract benefits and priority for killing space. Shares are traded on a willing trader willing buyer basis.

CANTERBURY MEAT PACKERS is a private company with a strong shareholder base with some overseas corporate investment.

NELSON BAYS is a joint venture company with major farmer co-operative companies or majority farmer co-operative companies.

ALLIANCE is a farmer co-operative where shares are required to participate in the pools and to get maximum space for your livestock but you can still supply if you don't have shares.Shares have a set value of $1 and can't be traded.Just recently suppliers voted to increase the shareholding that would be required to participate in the pools.Their contributions will be taken off pool returns until the required level is met. There are plans afoot to possibly turn the company into a publicly unlisted company in 1997

Need to maintain the sheep supply

Most companies that did comment mentioned that there is no need to maintain the supply from the consumer's point of view and as producers we must take up the challenge to produce what we can sell, not sell what we produce. It was also highlighted that if everyone in the chain from pasture to plate is doing an efficient job and there still isn't enough income to stop land going into alternative land use (dairy,forrestry etc) then nothing can be done .

ACCOUNTS ANALYSIS TRENDS

Year	88/89	89/90	90/91	91/92	92/93	93/94	94/95 (EST)
Lambing %	122.2%	130.0%	127.5%	128.9%	130.1%	130.0%	125.0%
Lamb Price	$21.66	$31.96	$33.16	$29.08	$42.30	$43.50	$34.00
Wool Prodn/su	5.8	6.2	5.4	5.5	5.1	5.5	5.5
Wool Price/kg	$4.26	$3.87	$2.97	$2.78	$2.75	$2.55	$3.20
Income/su							
Sheep	$17.90	$27.63	$28.79	$25.64	$37.00	$38.10	$28.30
Wool	$24.80	$23.89	$15.78	$15.02	$14.10	$14.00	$17.60
Other	$4.10	$4.03	$3.92	$3.97	$6.70	$4.00	$4.10
Total	$46.80	$55.55	$48.49	$44.63	$57.80	$56.10	$50.00
Farm Working Exp/su	$19.52	$23.94	$21.69	$22.68	$27.90	$28.00	$26.00
Economic Farm Surplus	$27.28	$31.61	$26.80	$21.95	$29.90	$28.10	$24.00
Debt Servicing/su	$12.00	$12.01	$11.03	$9.78	$9.40	$9.20	$9.90
Surplus Available For Personal,tax,capital etc	$15.28	$19.60	$15.77	$12.17	$20.50	$18.90	$14.10

Figure 1

The Future - discussion

The main point of this project is getting a vision of procurement polices in the export sheepmeat industry so that everyone involved will have a future and the industry will grow and prosper-something it hasn't done since 1985.

Farmer Meetings

It was with this in mind that I became involved with a series of farmer meetings in Central Southland , five in total, which had an attendance of 160 approximately .It was also important for me to test some of my ideas on a wider audience of fellow farmers .

The farmers who attended didn't spend lots of time moaning about the past but their attitude could be best summed up in this quote from Mark Twain: " I'm concerned about the future because that's where I'm going to spend the rest of my life"

We did however, have a very good analysis of what farmers financial position had been over the last seven years . It was collected by leading independent farm consultants Preeble Lines and Associates and is detailed in figure (1)

The financial analysis was done on actual figures from annual financial returns (except 1995 which was estimated) of 150 farmers (MAF use only 7-8 farmers in a comparable survey). The model used was an intensive Central-Coastal Southland sheep farm of 2800 stock units .This represented a moderate stocking rate of 14 stock units / ha (5.6 / acre) on an effective area of 200 hectares. All figures used were exclusive of GST and excluded any off farm income.

The **accounts analysis trends** showed us comparing 93-94 with the estimate for 94-95 that sheep income had dropped substantially $10 s.u, only partially offset by greater wool returns of $3.60 s.u. which led to the total income being back by $6.10 a s.u. Farm working expenses were still high compared with the other years but would have been lower if farmers had not had expenditure flowing over from the previous year

Expenses – Actual vrs Maintainence

Year	88/89	89/90	90/91	91/92	92/93	93/94	94/95
Actual Farm Working Expenses/su	$19.52	$23.94	$21.69	$22.68	$27.90	$28.00	$26.00
Estimated Full Maintainence/su	$24.50	$24.50	$24.50	$24.50	$25.00	$25.00	$25.50
Difference	($4.98)	($0.56)	($2.81)	($1.82)	$2.90	$3.00	$0.50
Accumulated Difference	($4.98)	($5.54)	($8.35)	($10.17)	($7.27)	($4.27)	($3.77)

Figure 2

and realised earlier that schedules would remain at static depressed level for the season. Debt servicing had also increased 70c a s.u. and this reflected that interest rates had gone up by 2%, not extra borrowings. The bottom line surplus of $14.10 is very low in the survey 7 years and our advisor prior to the meetings told us this should be at least in the $18-$20 s.u. to go anywhere .

The **Expenses- Actual vrs Maintainence** (figure 2) actually gives us a picture of whether the properties were being maintained or effectively mined. Looking at the figures we see that an estimated farm full maintenance figure has been taken off the actual from the other page and the difference expressed and accumulated difference tallied through out the years.

It showed that we have had deferred maintenance throughout the entire 7 years. Only in 92-93 and 93-94 was there sufficient income to do some of the deferred maintenance that had been stacking up and even though a small amount of deferred maintenance had been done ($0.50) in 94-95 the surplus had been far too low ($14.10). This meant 70% -90% of the farmers would make a loss and wouldn't balance .

I estimated that on the figures sheep farmers needed to increase their surplus by $5 and their maintenance by $2 a stock unit to go any where and at least stop going backwards. This would roughly equate to $8.50 increase for every lamb, bringing the average up to $42.50.This is without any increase in the wool price or any increase in lambing percentage

At the five meetings we had there was general agreement that the figures represented a true account of where their farming operations were at . One of our meetings passed a motion that the price should be $50 in the coming year . The other meetings realised setting a figure would not make the industry's problems go away. Most commented the $42.50 figure was on the low side.

All meetings were unanimous that the **status quo was not acceptable**. The way the meat industry operated had to change, there was nothing to lose.

Company Restructuring

One of our panel actually dealt with company debt levels and the implications of this in the event of company liquidation.After seeking professional advice we decided to present factual information on the 2 main companies in the South Island, Alliance Group Ltd and the Primary Producers Co-op Society Ltd .Between them they process approximately 90% of the South Island stock.Our analaysis showed that even with conservative estimates as to the value of assets, the banks would get their money out .The biggest loser would be the supplier as with all the other company liquidations .

PPCS had already taken the decision to lift farmer capital from $5,000 per shareholder to $10,000 to participate in the pools . Alliance was at least giving shareholders a vote and over 70% of shareholders had to vote for it .Farmers realised the price of the procurement wars held in previous years was having to be paid.(There was a unanimous vote to support the Alliance restructuring plan at a special Alliance meeting held in Invercargill on 15-8-95)

Feedback on a future vision

<u>Refocus on average seasonal lamb price.</u>

All farmers were in agreement that the only price that matters is your seasonal average.The hype surrounding opening schedules was outdated and a more stable schedule was desirable .The difference between a Friday and a Monday shouldn't be 50c to $2 just because the schedule had moved .In some seasons it had been very difficult to make long- term seasonal decisions because of the fluctuations.

<u>Guarantee of payment</u>

Unanimous support at all meetings for this one too .Some farmers present had lost money in one or more company liquidations.

Better space allocation

There was much comment that this must be done better. There were farmers present who had supplied all companies in the 1994-5 season in the South.Blue Sky Meats with its fully contracted system had followed its preset plan without any hitches, its suppliers were happy .The other 2 large co-operative's space allocation had been a shambles . The supply contracts with Alliance meant that even though numbers had been specified, in set weeks only a percentage of that allocation was got away at best during the peak months of February , March , and April .PPCS had similar problems but farmers were more angry because it had a grazing payment (reimbursement for not getting stock away as per agreement) clause and some farmers mentioned that even though they had signed it the company hadn't and no grazing would be paid.A better system had to be found for the co-operatives.

Supplier Contracts

Supplier contracts were seen as many as the way out of the space allocation problem they had experienced .Blue Sky Meats had a specified dates of delivery contract and many felt it would be far better to know when stock was going than what they had experienced the past season.

National Indicitive Payment System

This would be something completly new with a payment of 75% of the estimated return based on a national indicative schedule . Progressive payments would occur until a final payout based on marketing returns and processing efficiency was declared in August . The system would require a fully contracted supply and new yearly contracts would be signed just after lambing . It was a bit like a Dairy Board system but without the compulsory acquisition for marketing . It would mean that the returns were market related and didn't require the crystal ball gazing that has to happen when you set the schedule many months before the product is actually sold. It would help reduce the amount of working capital required and stop the industry dashing for cash in the market place.farmers were prepared to give anything a go if it would help their returns **but** the equity left in would have to be guaranteed to 100% . They also mentioned there would have to be some transition to such a scheme for cash flow reasons .

Marketing

There was much discussion on co-ordinating marketing efforts as the present open market systems didn't seem to be working .There have been rumours of underselling in the marketplace and this dash for cash had to stop .The only way we would survive was on increased market returns . Farmers commented that there wasn't enough effort going into marketing and voted unanimously for a more coordinated approach. The single desk selling like a Dairy Board model was discussed but there wasn't much support for this as farmers believed what we have got, if a more co-ordinated approach was adopted could work much better and they didn't want to start from scratch again putting in place a new structure .

Farmers generally agreed that marketing was not well understood by the producer but was perceived to be a weak link .At all meetings there was unanimous support for a full report on marketing, in particular weak selling and this should be funded by the Meat Board .

Conclusions

The past

Procurement Policies in the export sheepmeat industry for many years were only linked to supplying the United Kingdom, which would take all that we could produce through both world wars and for many years afterwards. The turning point in this relationship would be in 1970 when Britain joined the European Economic Community.

Hygiene regulations greatly affected the meat industry's profitability from 1960 on and the ever-increasing changes, particularly in those early years, must be seen as ways to decrease the NZ product's competitiveness and must therefore be regarded partly as a non- tariff barrier. It is interesting to note that it is only in the last few years that processing plants have had regulations on hygiene tightened in the United Kingdom and many closed because of the high cost of compliance.

Industrial relations were very poor between the mid 1970's and mid 1980's in particular and with the Employment Contracts Act of 1991, closer and more productive relationships have been forged at company level.

The government during this time only accentuated problems with enforced settlements and general wage orders, none of which were related to productivity.

On farm relationships with companies were also tarnished with continual strikes and many farmers dealt with more than one company because of the high cost of getting no stock killed during a strike, and its effects on that year's and subsequent years income.

Poor industrial relations also contributed to difficulties of diversifying markets which was essential because of the U K joining the EEC. It also contributed to a lack of innovation and new technology with bans on the latter until the early 1980's.

Procurement wars have happened throughout the history of the export sheepmeat industry .They happen because of one company's ambition to increase its throughput and can substantially affect profitability.

Figure 3

WHY DO PROCUREMENT WARS HAPPEN?

	COMPANY "A"	COMPANY "B"
♦ Market Share Lambs	8 million - 45%	8 million - 45%
♦ Gross Margin	$10.00	$10.00
♦ Company Profit	$10,000,000	$10,000,000

COMPANY "A" INCREASES PROCUREMENT MARKET SHARE BY 5%, OR 1 MILLION LAMBS, BY TAKING THEM FROM COMPANY "B"

♦ New Market Share	9 million - 50% Gain to Company "A" 1 million @ $10.00 = $10 million + Throughput efficiencies on 9 million @ 50¢/head = $4.5 million	7 million - 40% Loss to Company "B" 1 million @ $10.00 = ($10 million) loss + Throughput inefficiencies on 7 million @ 50¢/head = ($3.5 million) loss
♦ New Profit	10m+10m+4.5m = $24.5 million	10m-10m-3.5m = ($3.5 million) loss

In the example figure 3 highlights how if company A seeks an extra 1 million lambs and company B does nothing then company A will make an extra \$14.5 million and company B will lose \$13.5 million leading to company A making a \$24.5 million bottom line profit and company B a \$3.5 million loss. Of course company B knows what will happen if it does do nothing and the procurement war rages, because of the underlying fact that approximately 90% of throughput is needed to pay a company's overheads .

The examples I have highlighted throughout "the past" show that procurement wars were normally followed by agreements between companies to stop going to uneconomic lengths and that competition was necessary but cut throat competition did no one any good.

That has all changed since 1986 when the Commerce Commission Act was passed into law, which prohibits any discussion on pricing or price fixing between the companies.

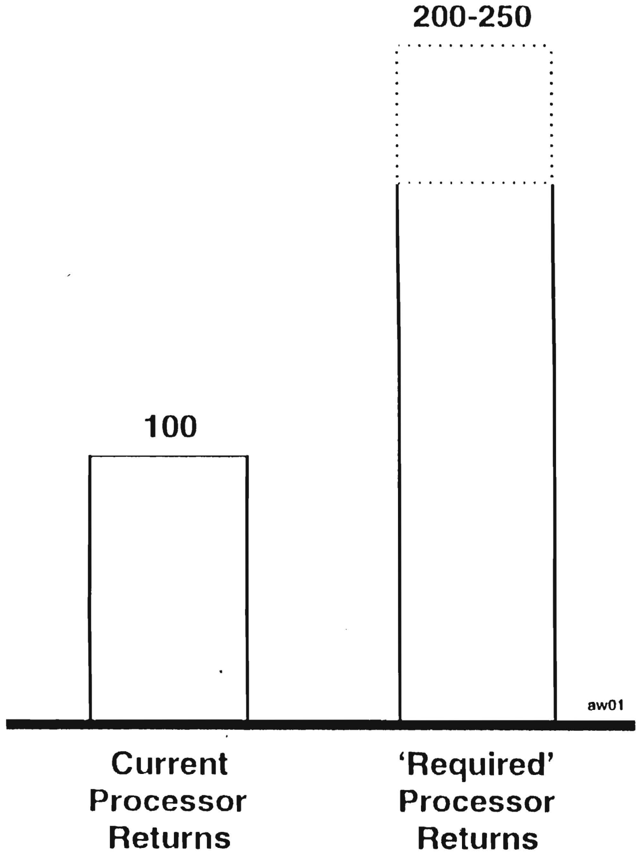
The other changes that have occurred since 1986 are the drop in sheep numbers because of low returns since the mid 1980's, reversing the trend since the 1860's, and this has seen export lamb numbers fall from 39 million in 1985 to 25 million in 1995.

The sheep industry has also been in survival mode with growing excess processing capacity and low farm profitability. A short term view has been taken and either the processor or farmer has made a profit at the expense of the other and not grown returns for everyone. There has been little investment in the market place.

With this recipe for disaster procurement wars were particularly fierce in the late 1980's early 1990's and only after several freezing company collapses, involving farmers losing money in both stock and shares, corporates and banks writing off some debt, company quotas being introduced for the high paying European union (EEC), the retiring of excess capacity in both North and South Islands and recently the

THERE IS POTENTIAL TO 'GROW THE PIE'

WHAT IS REQUIRED?
(EBIT: $m)



WHERE DOES IT COME FROM?
($m)

Improved Industry Efficiency	160+
Reduced Finance Cost	30+
Prevention Of Weak Selling?	200-400
Additional Market Margin	220-500
	590-1090+

Must 'Grow the Pie'

Figure 4

recapitalisation of several large companies and smaller ones, has the industry been able to come up for air.

A Vision of the Future

If we look at the farmer's position we can see that returns aren't enough to maintain their production and indeed to keep them in the export sheepmeat business. The company's position too has been precarious and some have gone into liquidation and a lot have needed recapitalisation. How can the industry get a bigger cake with more income for all?

To answer this question I went to hear Alan Jackson speak to a group of farmers. He works for the Boston Consulting Group who are consultants on performance. Of particular interest was the overhead 'There is potential to "Grow the Pie"'.(Figure 4) It highlighted for me some areas where extra return could be earned. This extra return would come mainly from prevention of weak selling in the market place and additional market margins.

The extra out there could be up to a $1billion!

To get even some of this would require far more marketing staff and fewer involved in stock procurement. Basically a shift from 99% resources in processing to 70% and the 1% marketing resources boosted to 30%.

Another main point was that the export sheepmeat companies needed a certainty of supply and to stop looking inwards and look a lot more at markets.

Many of the meat industry leaders deny that weak selling occurs to the degree that Alan Jackson's figures would suggest but nobody really knows and it only takes one weak seller in the market to crash the market for the rest. All agree that they have to do better marketing and invest in the marketplace but how can the companies individually invest when the lamb crop is still-declining estimated to be 23-24 million down from 25.4million (Meat & Wool Economic Service, 1995) and as such means over capacity problems are looming once again and inevitably another procurement war. We only have a window of opportunity before the next procurement war.

My Conclusions

Contracts

All companies have yearly 12 month contracts with their suppliers. If they supply more than one company then a percentage of the total lamb or ewe crop must be specified along with numbers. Contracts would be signed just after lambing and would be binding on both parties. The only incentives in signing a contract must be the market based return not procurement incentives. To this end a national indicative schedule would be required .

Payment

A new system of payment would be required, based on a seasonal price of grades with some incentives in the short supply months, and for specific chilled supply.

Per heading

No stock (including ewes) would be purchased on a per head system. All stock would have to be killed on the owner's account and graded. With per heading no quality signals are given and the source of origin is hard to identify so there isn't the same incentive to stick to withholding periods and this lack of accountability can't be allowed to put our entire production at risk.

Total Quality Management

The communication between supplier and company would be greatly strengthened because the politics of procurement had been removed. This would allow feedback from the company including progressive market reports, and allow fine tuning of the farmer's supply to maximise return for all.

The "them and us" attitude would disappear.

Quality

Because of the trend to quality and quality practices such as ISO 9002 accreditation the supplier will be involved in some form of accreditation mainly for withholding periods, animal welfare issues and presentation. This is essential to underpin the quality image the NZ meat industry is promoting overseas.

Quality feedback to producers would reflect customer requirements and companies who went to greater lengths to help suppliers to improve their quality would be rewarded with a more marketable product. The company focus and relationship with suppliers would be taken into account when contracts were being signed in the coming year.

As a industry we must manage animal welfare and hygiene so that ridiculous criteria aren't placed on NZ sheepmeat as a non tariff barrier to increase our cost structure as was the case with hygiene in the late 1960's.

Leglisation is currently before Parliament to change meat inspection so that companies can do their own in an environment of self regulation. For companies who are ISO 9002 accredited there would be no problem in this as they are regularly audited anyway. There would be substantial financial benefits for the industry in meat inspection being bought into line with the 1990's employment regimes.

Pools

All NZ meat would be pooled and companies would have to pay out 75% at the time of kill. Progressive payments would be made throughout the year and final realisations would have to be published on a grade by grade basis to an agreed national formula. Suppliers would judge companies on their final market realisations.

Payment

Time of payment would be reduced from the industry 14 days to 5 days because of the need for greater security of payment in the industry. The banking industry would forego its privileged position and allow producers first call in the event of collapse. The reason they would do this is because of the better climate this vision brings into the industry and a reduced finance cost. Many Fortex and Weddell suppliers following those companies going into receivership would have at least got 75% of their stock's final price, not nothing.

Financing

Most of NZ meat companies are owned by majority farming shareholding, increasingly in publicly unlisted companies.The trend of bleeding the company profits to payout increased farm gate returns through procurement wars has been largely stopped under this vision. The reason for this is the need for some allocation for an individual's investment over the years (under co-op structure shares only have a set price) and the need for greater company profits for future investment .

By only investing in the market place can the future of the company be assured and this investment will be reflected in company share prices. There wouldn't be a need to have shares to participate in the pool.

As with some NZ companies now, shareholders would get a dividend separate from the supply of stock.

Marketing

With this vision in place companies would be more willing to invest in the market place and even co-operate more because they would have an assured supply. The savings from procurement could be invested in marketing and greatly enhance sheepmeat's future income. The Meat Board would be the glue to keep companies together and more co-ordinated marketing would have to be adopted it is dumb to undercut price in the marketplace - it only destroys the whole market. New Zealand's meat production on world standards is tiny, we produce only 0.5% of world sheepmeat and beef production(Competing in the global marketplace, Nayga,1994)and although we export 45% of the world's exported sheepmeat, it only accounts for approximately 5.7% of world production. (Meat and Wool Economic Service 1995)We must combine and get more co-ordinated in our marketing. The high level of co-ordination in 1994 was only 10.5% of our total sheepmeat exports, approximately.

On shore and overseas efficiencies would be greatly enhanced because companies would know exactly how much product they would be getting to process and market.

Need to maintain sheep supply

Refocusing in the market and giving companies a committed supply in return for more investment in marketing is the only way the sheep industry will survive. Sheep farmers don't realise how large the dairy farmer's investment is beyond the farm gate, approximately $350,000 per farm. The Dairy Board has 5-600 employees in NZ and 6,000 overseas marketing!

Commerce Commission

To bring this vision about would require much discussion between companies on issues that would be regarded by the Commerce Commission as not within the law

.In particular the national indicative schedule is cited in a letter I received from them (see copy of letter in appendix 4)

I believe they have missed the point of what I am trying to do. The meat industry under this vision would still have competition but it wouldn't be based on crystal ball gazing; that is, setting a schedule price even before the product is sold. Under my vision the price would be related to the market return, given that it takes 12 - 15 months to sell the products. Companies would have much more co-ordinated marketing plans and a greatly enhanced return for all.

It is interesting to note that the Chairman of the Meat Board, David Frith, said in a newspaper report (Southland Times 30-6-94) that "Meat Board staff would be willing to bring competing meat companies together to work out businesslike solutions for livestock procurement. It would be willing to lead discussions and liase with authorities such as the Commerce Commission, which precludes the Meat Planning Council from addressing procurement issues".

I see procurement issues being dealt with in a forum such as the Meat Board could provide.

I can't see the problem for the NZ consumer as I envisage no change for the NZ consumer. It is interesting to note that NZ exports 82% of its sheep meat production. (Meat and Wool Economic Service,1995)

Summary

The New Zealand sheepmeat industry has a window of opportunity now that much of the overcapacity in the NZ export sheepmeat industry has gone.

The vision I have outlined would take co-operation between companies so that we could all benefit from the greater returns offshore.

Sheep farmers too must realise that their absolute free choice as to where their stock goes leads to a short view being taken by meat companies, and little or no investment in the market place.

Without investment in the market place we will not improve the return greatly, sheep numbers will continue to decline, every one will be involved in what many are calling today a sunset industry!

The vision I have out lined would free up the money currently spent in procurement for investment in the market place, would do away with weak selling and allow a more co-ordinated approach growing the pie for all.

I remember the farmers at the woolshed meetings who said that the status quo is not an option. Let's make a big bold step down a new path, the path of prosperity.

What have we got to lose?

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Disclaimer

The information contained in this report has been prepared with the best information made available and although I have gone to great effort to make sure the facts contained in this report are correct I accept no responsibility for any descrepences.

Acknowledgements

I would to like to thank the following companies who replied to my survey and for the information they supplied :

Blue Sky Meats NZ Ltd

Richmond Ltd

Alliance Group Ltd

Progressive Meats Ltd

Affco NZ Ltd

Canterbury Meat Packers Ltd

Frasertown Meat Co Ltd

Nelson Bays Meat Producers Ltd

Waitotara Meat Co Ltd

I would also like to thank the many other people who have given me advice and support , many of whom I consider personal friends . A special mention and thank you to my family.

Appendix 1

Northope
R D 4
INVERCARGILL

23 May 1995

Dear

I am writing to your company as part of my research, for a written project through Lincoln University. My name is David Rose and I farm a 206 ha intensive sheep and beef property in Southland. I am a 1995 participant of the Kellogg Rural Leadership Programme.

My written project is on "Procurement Policies in the New Zealand Export Sheep Meat Industry," looking at the past, present and future and getting "A Vision for the Future."

I am looking for factual information on how your company's export sheep procurement policies operated in the past, and are operating presently.

You may choose to give me your company's vision of the future which would be great. A personal opinion would also be great and I won't use this as being an official company policy. I respectfully request and would really appreciate your input.

I have detailed on the attached page various areas where I hope you can comment on. If there are any other areas you would specifically like to add or expand on that would be a bonus for me.

I hope to get a vision for the future and of course all companies who submit information will get a copy of the final report.

I will ring you within the next 10 days to discuss any queries you have.

Yours sincerely

David Rose

Appendix1

PROCUREMENT POLICIES
(PAST, PRESENT AND FUTURE)

USE OF CONTRACTS	- Specific markets - Preferential suppliers - Specific grades - Specific numbers - Killing dates - Advances paid - Teeth (ability to penalise) - Other conditions
T.Q.M. **(Total Quality Management)**	- Suppliers involvement - Information transfer (two way communication) - Ability to give market requirements
QUALITY ISSUES	- Meat inspection - Yields - Hygiene regulations - Presentation - Withholding periods - Pelt quality - P H (stress levels) - ISO 9002 - Feedback to suppliers - Meeting the clients requirements
PER HEAD BUYING	- Ewe policy - Over capacity - Competition - Market signals

PAYMENT	- Period from kill date to payment - Guarantee - Transport averaging - Other options
POOLS	- Shares needed to participate - Liability for losses - % lambs on pool - % ewes on pool - Ability to sell own account - % retained for how long
FINANCING	- Equity issues (capital) - Structure (eg. co-op, company public or private etc) - Ownership - Need for suppliers to have shares
NEED TO MAINTAIN SHEEP SUPPLY	- Commercial solution - Long term profitability - Competition - other land uses - Procurement wars

PLEASE NOTE

Some of these areas may not be applicable to your company and I may have missed out other areas you would like to comment on. Your input is appreciated.

Northope,
No 4RD,
Invercargill.
11 September 1995

Appendix 2

Chief Executive

Dear Mr ,

I has been over 3 months since I wrote to your company asking for some factual information about export sheep procurement policies.I have enclosed a copy of that letter in case you misplaced the first letter..

I am doing a KELLOGG RURAL LEADERSHIP COURSE , part of it is a written project . The title of mine is Procurement polices in the export sheepmeat industry past ,present ,and future and getting a vision for the future!

I suggested in my previous letter some areas you may like to comment on but I am not after a book !!!! I would just like some input from your company a few brief comments would be great

I am not some consultant or journalist trying to make money out of your input.I am a sheep farmer and I will send all companies who submit information a copy of the final report .If you have any queries or concerns please give me a call on 03-2352-619

Looking forward to your reply

yours sincerely

David Rose

Appendix 3

Northope ,
No 4RD ,
Invercargill .
5-10-95

Mr Thorne ,
Agriculture Section ,
Commerce Commission ,
PO Box 2351 ,
Wellington .

Dear Mr Thorne ,

I am writing to you as part of my research , for a written project through Lincoln University . My name is David Rose and I farm an intensive sheep and beef farm in Southland .I am a participant of the Kellogg Rural Leadership Programme .

My written project is on "Procurement Polices in the NZ Export Sheep Meat industry " looking at the past ,present , and future and getting "A Vision for the future"

One of the biggest problems in the Meat Industry has in the past been the fierce competition between companies onshore , because of over capacity of killing facilities. Several years ago freezing companies mainly only processed stock and it was exported on the farmers own account .The farmer took the risk and got the residual profit or loss when the meat was finally sold .Competition was basically for processing and within NZ .I have no real problem with this .

TODAY However Meat Companies sell the product as well and it takes 12 -15 months to sell it. The option for the farmer to sell on his own account is gone , being replaced with a pooling option , by some companies.The processing costs seem to be mixed up with the marketing returns and there is NO TRANSPARENCY .

When I look for a VISION FOR THE FUTURE I wonder a better system of Procurement might not be a National indicative schedule paid out during the season about 75% of anticipated return .With company final marketing returns at the end of August when nearly 100% of the product is sold. This would allow returns to reflect the true market return and would put the industry on a much sounder footing ! Crystal ball gazing and procurement wars wouldn't be as important , the most important thing would be the MARKET RETURN .

Appendix 3

The Main Reason For Writing To you was

1 To get an idea of how the Commerce Commission views how procurement in the sheep meat industry should be carried out?

2 To find out how a national indicative schedule would be viewed remembering that actual market returns is what companies would be judged on?

3 To find out the basic rules the commerce commission operates under ?

4 Does the commerce commission view Freezing companies which export their products on a pool system and are farmer co-operatives differently from fertiliser farmer co-operatives ?(Freezing companies export to a market outside NZ? Fertiliser companies import to a market which is NZ)

5 Can the sheep industry get together and try to bring about a Vision for the Future and put the industry on a better footing , as I outlined (bottom page 1)??

Summary

The Sheep Meat industry really needs to be put on a much sounder footing , one which relates to the MARKET !!! There has to be some way to break out of the present system and allows both processors and farmers to profit if we are going to have a future. I do hope you can answer the above questions and please feel free to comment on any other areas . If you have any queries please give me a ring on (03) 2352619

Looking forward to your reply

yours faithfully

David Rose

COMMERCE COMMISSION

Appendix 4

PLEASE REFER TO:

Wellington

31 October 1995

Northope
No 4 RD
Invercargill

Dear David Rose

Thank you for your letter dated 5 October 1995 requesting our views on meat procurement issues.

Firstly I apologise for not responding earlier to you, however you will have noticed, from the media, that we have recently been dealing with this very issue concerning the North Island meat processing companies.

Section 27 via 30 of the Commerce Act 1986 (the Act), prohibits price fixing because it restricts or eliminates competition in prices. Without price competition consumers could end up paying higher prices or, producers could end up receiving lower prices.

Price fixing or collective pricing occurs when people or businesses agree to control or fix prices for the goods and services they deal in.

The ban on price fixing applies to all individuals and commercial organisations, including SOE's and government departments. The only exceptions are covered by ss 31, 32 and 33 of the Act which relate to joint ventures, recommended reselling prices by groups of 50 or more people, and joint buying and advertising.

I have enclosed with this letter a number of pamphlets that expand on that information and provides advice on how the Commerce Commission operates in relation to the Act.

WELLINGTON: LANDCORP HOUSE, 101 LAMBTON QUAY, PO BOX 2351, WELLINGTON, NEW ZEALAND. TELEPHONE (04) 471 0180, FAX (04) 471 0771
AUCKLAND: K H LAI BUILDING, 99 QUEEN ST, PO BOX 105-222, AUCKLAND CENTRAL, NEW ZEALAND. TEL (09) 377 3094, FAX (09) 377 3561
CHRISTCHURCH: RIVERLANDS HOUSE, 31 VICTORIA ST, CHRISTCHURCH 1, PO BOX 25-193 VICTORIA STREET. TEL (03) 379 3284, FAX (03) 366 1311

Appendix 4

As you are probably aware, meat schedules have operated in New Zealand since 1956. Beef schedules have operated continuously since that date, while lamb and sheepmeat schedules ceased to operate between 1982 and 1985, when the Meat Board controlled the sheep and lamb marketing, and set prices through the SMP scheme.

National schedules operated up until late March 1987. Those schedules were generally set by the major meat processors on a weekly basis.

In the case of beef, the national schedules were then published in the major newspapers weekly, while the lamb and sheepmeat schedules were given to the Meat Industry Association, which circulated them to it's 44 members and the Meat Board.

In 1987 the national price schedule was abandoned by the MIA. The Commission's view of such schedules is that it would be in breach of the Act. It is the Commission's view that companies should set their own schedules depending upon their perceived returns for the product. To discuss and agree prices with their competitors puts them at risk under the Act. Our opinion has been made clear with the current court action that we have instigated against a number of the North Island meat processing companies.

As stated earlier we do not believe that a return to national indicative schedules would be warranted or in fact within the law.

Your question as to whether the sheep industry should get together to bring about a vision for the future is only natural, and probably good sense. There is of course many issues that may need to be jointly discussed by the industry participants. As long as those discussions do not involve pricing issues, then they are unlikely to contravene the Act.

You should be aware that the views I have expressed are only an opinion, because ultimately only the Courts can determine whether any behaviour breaches the Act.

I hope this has been of some assistance to you.

Yours faithfully

Guy Launder
Investigator
Commerce Act Division